

Arizona Cities and Towns Reporting Guidelines A.R.S. §9-481(B)(2)

Introduction

Arizona Revised Statutes (A.R.S.) §9-481(B) requires that a city/town's audit report include:

- Financial statements prepared in accordance with generally accepted accounting principles.
- An auditor's opinion on the financial statements or a disclaimer of an opinion.
- A determination as to whether highway user revenue fund (HURF) monies received by the city/town pursuant to A.R.S. Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the city/town are being used solely for the authorized transportation purposes.

Based on the language in the law, we believe that the Legislature wanted wording in the city/town's report that would clearly indicate that the auditor had tested whether HURF monies received by the city/town pursuant to A.R.S. Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues were used solely for the authorized purposes and the results of that test work. The results may be in the auditor's opinion on the financial statements or a separate report of the auditor within the city/town's audit report.

These reporting guidelines include illustrative examples of auditor/accountant's reports based on standards of the American Institute of Certified Public Accountants (AICPA). The examples included are not authoritative. Instead, they provide sample formats that may assist cities and towns in complying with the requirements of A.R.S. §9-481(B)(2).

Cities and towns should decide the appropriate course of action for their entity to comply with the statute. As the fiscal year 2005 audits are already in progress, it may not be practicable or cost effective to implement these guidelines for that year. Cities and towns should follow these guidelines for their fiscal year 2006 audit and thereafter.

If you have any questions on these guidelines, please call the Office of the Auditor General, Accounting Services Division, at (602) 553-0333.

Guidelines

If HURF monies and other dedicated state transportation revenues are tested as a significant part of a major fund during the financial statement audit, the reporting guidance in AU 623.19-21 (upon which Exhibit 1 is based) may be adequate to comply with the requirements of A.R.S. §9-481(B)(2). Major funds are required to be reported as a separate column (opinion unit) in the financial statements. Auditors are required to plan and perform their audit to obtain reasonable assurance about whether the financial statements are free of material misstatements arising from illegal acts or noncompliance with laws or governmental regulations that have a direct and material effect on the determination of financial statement amounts for each opinion unit. Consequently, auditors will likely perform sufficient testing to determine compliance with spending restrictions on HURF monies and other dedicated state transportation revenues when they are a significant part of a major fund.

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A.R.S. §9-481(B)(2)**

Cities and towns should note that generally accepted accounting principles (GAAP) provide specific criteria for determining what must be reported as a major fund. However, GAAP also provides that, in addition to those funds, any governmental or enterprise fund that city/town management believes is particularly important to financial statement users (i.e., because of public interest) may be reported as a major fund. Whether a fund is required to be reported as a major fund or is voluntarily reported as a major fund, the auditor's responsibilities under generally accepted auditing standards are the same.

If HURF monies and other dedicated state transportation revenues were not tested as a significant part of a major fund, the auditor will need to perform tests of compliance over the use of those revenues and the guidance in AT 601.30-.70 for performing and reporting on a compliance examination engagement (upon which Exhibit 2 is based) should be followed. This is a separate engagement from the financial statement audit.

The two exhibits attached are examples of when no instances of noncompliance were noted. If instances of noncompliance are noted, the auditor should refer to the applicable AICPA standard for guidance on modifying the report appropriately.

Whether the auditor follows the guidance in AU 623 or AT 601, the report should be modified to include a description and the source of significant interpretations, if any, made by management related to allowable expenditures of HURF monies or other dedicated state transportation revenues. Arizona Attorney General Opinion I05-003 provides additional guidance on allowable expenditures of HURF monies.

Procurement

When the city/town procures audit services, it should make audit firms aware of the requirements of A.R.S. §9-481(B)(2) and the scope of services expected. Specifically, the city/town should indicate whether it expects the auditors to report on compliance in conjunction with the financial statement audit (AU 623) or perform a separate compliance examination engagement (AT 601). The request for proposals should indicate whether HURF monies and other dedicated state transportation revenues are accounted for in a major fund and refer to these guidelines. This will assist the firms in preparing their proposals and could help minimize the cost of the engagement(s).

Exhibit 1

Report on Compliance with Regulatory Requirements Related to Audited Financial Statements Included in the Auditor's Report on the Financial Statements

Include the following paragraph after the opinion paragraph:

In connection with our audit, nothing came to our attention that caused us to believe that the City/Town failed to use highway user revenue fund monies received by the City/Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City/Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Include the following paragraph at the end of the report:

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Report on Compliance with Regulatory Requirements Related to Audited Financial Statements Given in a Separate Report

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the City/Town of _____ as of and for the year ended June 30, 200_, which collectively comprise the City/Town's basic financial statements, and have issued our report thereon dated _____, 200_.

In connection with our audit, nothing came to our attention that caused us to believe that the City/Town failed to use highway user revenue fund monies received by the City/Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City/Town solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Exhibit 2

Report on a Compliance Examination Engagement

Independent Accountant's Report

We have examined the City/Town of _____'s compliance as to whether highway user revenue fund monies received by the City/Town pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City/Town were used solely for the authorized transportation purposes during the year ended June 30, 200_. Management is responsible for the City/Town's compliance with those requirements. Our responsibility is to express an opinion on the City/Town's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City/Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City/Town's compliance with specified requirements.

In our opinion, the City/Town complied, in all material respects, with the aforementioned requirements for the year ended June 30, 200_.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.